telemarketers who use predictive dialers to also transmit caller ID information arc feasible options for telemarketers.[151]

As discussed Exhibit C. any regulation that significantly restricts or bans the use of predictive dialers will substantially increase sales costs. costs which will ultimately be home by consumers and harm competition.!" Moreover. regulation of the use predictive dialers by those engaging telephone solicitations will not completely eliminate abandoned calls. "dead air." or consumer's concern with unidentified calls.[153] Entities and uses that are not be subject to the ('ommission's regulations. such as non-profits or uses for surveys. would mean that unregulated use of predictive dialers would continue and contribute to the volume of incoming. and possibly. abandoned calls. Moreover. people are exposed to "abandoned calls" or "dead air" unrelated to the use of predictive dialer *e.?.*.as a result of someone dialing a wrong number. If these persons or entities have unlisted numbers or hloch their inumbers before making their calls, and possibly if they are calling from out of the calling area. their number will likewise nor register on caller ID devices

The Commission should nor impose regulations that have the potential of foreclosing the use of predictive dialers. Kather. it the record demonstrates a need. tlic Commission should adopt regulations that prevent the use of predictive dialers in a manner that is heedless of the number of abandoned calls generated.

A. THE ESTABLISHMENT OF TOO LOW AN ABANDONMENT RATE COULD ELIMINATE ALL OF THE BENEFITS FROM THE USE OF PREDICTIVE DIALERS

[151] *Notice*. para. 26.
[152] *Supra*. n. 141.
[153] *See Notice*. para. 15.

The abandonment rate is determined by the number of abandoned calls versus the total number of "live" person's reached.[154] It the Commission determines it should establish a maximum setting on the abandonment rate, the rate should be at a level that will prevent demonstrated misuse of the equipment by careless users, not one that will eliminate all the benefits the equipment provides. The feasibility of both retaining the benefit of predictive dialers and complying with a mandated maximum abandonment rate depends on the level at which the rate is set, as well as any criteria established for the calculation of that rate. Since numerous factors interplay in the calculus of an abandonment rate, the Commission should not adopt a mandatory maximum abandonment rate without seeking comment on a specific proposal.

WorldCom has determined that its 3-5% abandonment rate is the lowest feasible rate possible in order to obtain the productivity benefits of predictive dialers. As discussed in Exhibit C, WorldCom has performed controlled tests in an effort to decrease its current abandonment rate of approximately 3-5% to reach a 1% abandonment rate. The testing indicated that in order to rzduce the abandonment rate to this level the predictive dialing system had to he aborted. This meant moving to an auto dialer mode, which reduced productivity by approximately 50%. Moreover the test determined that the 1% foal was not attainable even in the auto dial mode. This is a substantial decrease in productivity relative to the respective minimal decrease in number of potential abandon calls.[155] Consequently, it the Commission were to set a maximum abandonment rate, that rate should not he below 5%.

[154] Hicks, para. 7.
[155] Hicks, para. 8.

Moreover. the Commission should afford reasonable flexibility to users of predictive dialers in determining the time period over which the abandonment rate will be calculated. Calculating the rate over a six-month period rather than on per month or per day period. for example. does not increase the risk to any individual consumer of receiving an abandoned call But such flexibility does provide companies pliability in structuring their marketing campaigns. and may assist in compliance and enforcement eftons

B. REQUIRING THE TRANSMISSION OF CALLER ID AS A CONDITION OF PREDICTIVE DIALER USE IS A POTENTIAL BAN ON THE USE OF PREDICTIVE DIALERS.

Requiring the transmission of caller ID information as a precondition to use of predictive dialers could. in effect. he a ban on predictive dialers.[156] Most. if not all. telemarketing centers are currently technically unable to transmit caller ID information In order to accommodate such a condition. most compnnies would have to upgrade their current switches and circuits. at considerable expense and time. Yet. the transmission of caller ID information by a company engaging in telemarketing does not guarantee that the common carriers carrying the traffic. or the carrier terminating the traffic io the end-user. will be able to continue the transmission of this information to the end-user.[157] This would mean the called party might still receive an unidentified message like [illegible] area

[156] The Commission asks whether an abandon call violates the Commission's current rules regarding identification of the caller. specifically 47 C.F.R. §64.1200(d). *Notice*, para. 29. 47 C.F.R. § 64.1200(d) refers to telephone messages. In an abandoned call there is no message and therefore no violation of the Commission's rule.

[157] For one. caller ID is contingent on the use of Signal System 7 (SS7). which is not ubiquitous throughout the country. The terminating carrier would also need to have the telemarketer listed in its database in order to send the telemarketers name.

Before considering such a mandate the Commission should specifically seek comment on the costs and time associated with the implementation of such a mandate The Commission should also seek comment on the ubiquity and availability of Caller ID subscription to determine the potential extent of consumer impact.[158]

III. IT IS PREMATURE TO ASSESS, OR ADDRESS, THE IMPACT THAT NUMBER PORTABILITY AND NUMBER POOLING MAY HAVE ON THE CAPABILITIES OF TELEMARKETERS TO IDENTIFY WIRELESS NUMBERS IN ORDER TO COMPLY WITH THE TCPA.

WorldCom is unaware of any technological tools that would allow telemarketers to recognize numbers that have been ported from wireline to wireless phones or to recognize wireless numbers that have been assigned from a pool of numbers that formrrly were all wireline. Nonetheless. the Commission should take no immediate steps to address the impacts of number portability and number pooling on the capabilities of telemarketers to identify wireless numbers in order to comply with the TCPA. These events could have little to no impact on the capabilities of telemarketers. Alternatively. they could have a significant impact. The Commission should wait to see if there is a significant impact before it considers whether to require that the industry and telemarketers undertake potentially costly steps to avoid what might be a very small problem

Until wireless carriers actually begin to participate in number pooling and number portability. it is difficult to assess whether those activities will have a significant impact on the ability of telemarketers to identify wireless numbers in order to comply with the

[158] Furthermore. since the Commission's rules generally allow callers to block the transmission of caller ID information. a mandate that telemarketers transmit caller ID information raises constitutional concerns. *See supra*. pp. 26-30

TCPA. For example. it is possible that when wireless carriers participate in pooling. they will prefer to receive pooled blocks that were originally donated by other wireless carriers rather than by wireline carriers. There are a couple of reasons why this could turn out to be the case. First. wireless carriers may establish rate areas that are larger than the rate areas established by wireline carriers. If this is the case. wireless carriers will participate in unique pools that do not include wireline carriers. Second. wireless carriers may serve local calling areas that are substantially larger than those served by wireline carriers. In this circumstance. acceptance of a block donated by a wireline carrier could create serious intercarrier compensation issues for the wireless carrier.

The Commission should ask its expert advisory group. the North American Numbering Council (NANC) to assess the impact of number pooling on the ability of telemarketers to identify wireless nuinhers. The NANC. working with the North American Numbering Plan Administrator and the Pooling Administrator. could gather information on the extent to which wireless carriers actually receive number blocks from NXX codes that were originally assigned *to* wireline carriers. If it turns out that such activity is common. the Commission could determine whether there is a low cost way for the Pooling Administrator to assist telemarketers in obtaining accurate information on the assignment of "wireline" blocks to wireless carriers.

The impact of number portability on telemarketers is even more speculative than rhr impact of number pooling. At this time. it is not at all clear when. or even if wireline numbers will ever be ported in any significant volumes to wireless carriers The Commission has repeatedly delayed implementation of wireless number portability It one thing is likely, it is that wireless carrier) will seek further delay. Moreover, even if wireless carriers do implement number portability, it remains to be seen whether any significant amount of wireline-wireless porting will occur. There are significant unresolved issues associated with wireline to wireless porting. For example, wireless carriers have indicated that porting intervals on the wireline side are too long arid would not be acceptable to wireless customers, who expect their number to be activated almost immediately. Until wireless carriers actually implement portability and the industry gains experience in the feasibility and popularity ot wireline to wireless porting, it would be premature to require the implementation ot potentially costly steps

CONCLUSION

The Commission should refrain from adopting a national do-not-call regime and should retain, with some modification as discussed above, the current rules implementing the TCPA

Respectfully submitted

WORLDCOM, Inc

/s/ Karen Reidy
1133 19th Street, NW

Washington, DC 20036

(202) 736-6489

December 9, 2002

Its Attorney

Declaration of Andrew M. Graves
WorldCom Comments. Exhibit A
CG Docket No. 02-278

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Rules and Regulations Implementing the	)	CG Docket No. 02-278
Telephone Consumer Protection Act	)	CC Docket No. 92-90
of 1991	)	

DECLARATION OF ANDREW' hl. GRAVES
ON BEHALF OF WORLDCOM, INC.

Based on my personal knowledge and on informarion learned in tlic course of my business duties, 1. Andrew Graves. declare as follows:

1. My name is Andrew M. Graves I am employed by MCI WorldCom Communications. Inc.. ("MCI") a wholly owned subsidiary of WorldCom. Inc.. as Senior Manager of Marketing Strategy and Policy for the MCI Group. My business address is 22001 Loudoun County Parkway. Ashburn. VA 20147. I have ten years experience in the telecommunications field. having held Finance and Product Marketing positions. with MCI WorldCom or its predecessor company. MCI Telecommunications Corporation. Currently one of my primary functions is overseeing MCI's compliance with regulations related to the marketing of our local and long distance services to residential consumers

2. The purpose of my declaration is to describe the substantial benefits of telemarketing in generating telecommunications sales and assisting telecommunications buyers. I also discus rhe negative impact stare do-not-call lists have had on MCI's ability to compete and introduce new competitive service offerings to telecommunications consumers. Finally. 1 discuss why company-specific do-nor-call lists arc a more

appropriate means for allowing consumers to prevent unwanted telephone solicitations to their homes.

BACKGROUND

3. MCI was built, and endures, by bringing competitive and new telecommunications services to consumers across the country. In the long distance market, available prices are lower than ever before and consumers have increased options with regard to their services. Now, in many regions of the country, competition is delivering lower prices, product innovation and better service to consumer of local telecommunications services. Consumer reaction to local competition is extremely favorable. Four years since launching a competitive local product in New York, MCI has acquired 2.4 million subscribers across forty states plus the District of Columbia. In April 2002, MCI introduced The Neighborhood, an innovative all-disrance telecommunications product rhar combines a special feature package with unlimited local and long distance calling for one price. Astoundingly, MCI welcomed half a million customers to The Neighborhood in just 8 weeks after launch, hitting tlic 1 million customer marl, just 24 weeks after launch

BENEFITS OF TELEMARKETING TO TELECOMMUNICATIONS SALES AND CONSUMERS

4. The Neighborhood would nor have been so phenomenally successi[illegible] MCI's telemarketing capabilities. Telemarketing is responsi[illegible] majority of the Neighborhood sales. It is also responsible for the majority of MCI's telecommunications sales in general. MCI's experience demonstrates that telemarketing is the most effective way to introduce new producrs and services to the public, especially local and long

distance telecommunications services. and acquire customers from incumbent providers.

5. Consumers are accustomed to making telephone service decisions in response to telephone solicitations This is because telemarketing has proven instrumental in describing complex service offerings to consumers. This is important because telecommunications service offering are desigiied to allow customers to customize their service to their specific calling needs. Telecommunication products vary greatly. offering customers a choice of one or a combination of the following services: InterLATA Long Distance. IntraLATA Toll. Local Line. Calling Cud and International. For these services. customers ciin pick aiid choose a variety of rates and plans that specifically address their needs. including: unlimited local and long distance calling: reduced interstate. instate, card and/or international rates: local features and billing method. These can be extremely complex choices that are most effectively explained through direct communication with the customer. MCI employs thousands of well-trained telemarketers to accomplish this task.

THE EFFECTS OF STATE DO-NOT-CALL LISTS HAVE HAD ON COMPETITION

6. State do-not-call lists have substantially impacted MCl's ability to compete by raising our costs of marketing lower-piiced competitive offers to residential consumers These lists have also hindered the expansion of local competition by restricting our ability to introduce our new products and services to those consumers who might nor otherwise learn of these competitive choices. Thus. state do-not-call lists mean that some customers might never learn thai they have a choice for local phone service. killing local competition before it even take, hold.

7. MCI performed an analysis of three pairs of states. each pair containing one state governed by a state do-not-call list and the other not governed by such a list. in order to assess the impact of state do-not-call lists local market penetration. The pairs were matched based on a similar population and launch date to reduce other irrelevant factors. MCI found that its local market penetration was significantly higher in the states not governed by a state do-not-call list. up to 60% higher. MCI's assessment is that the variance is substantially the result of the reduced number of households MCJcontacted in certain states due to the exclusion of stat? do-not-call participants. This means thousands of consumers in these slates. who did not specifically request MCI not to call them. were nevertheless denied information on a new competitive choice for local phone service

THE EFFECTIVENESS OF THE CURRENT COMPANY-SPECIFIC LISTS IN PREVENTING UNWANTED CALLS

8. Reasonable alternatives to a national do-not-call database already exist today to allow consumer to srop unwanted telephone solicitations. Currenr federal rules and private industry practice provide consumers with effective means to reduce unwanted telemarketing calls. The most effective is the coinpiny-specific do-not-call list mandated by the Federal Communications Commission (FCC) pursuant to the Telephone Consumer Protection Act (TCPA). The telephone numbers of individuals who do not want to he called by MCI are kept on the company-specific suppression list and are excluded from MCI's marketing campaigns. Enforcement actions can be taken against companies that violate the FCC's rules. MCI recognizes the significance of that potential. Accordingly. MCI provides thorough. annual training to its telemarketers on compliance with do-not-call regulations and company policies and maintains a written policy as required by the

TCPA

9. In addition to being mandated, the company-specific do-not-call list is an important component of the telemarketing infrastructure. It is not in MCI's interest, and is a waste of valuable resources, to call those consumers who have advised us that they don't want to hear from MCI specifically. As such, MCI not only honors verbal do-not-call requests made by a consumer doing a sales call, consumers can place their names and numbers on MCI's do-not-call list by emailing MCI's Customer Service or by calling Customer Service via a toll free number.

10. In contrast, participation in a national or state do-not-call list does not necessarily mean that the consumer would not respond favorably to a sales call from MCI in particular. A consumer may be interested in offers of lower telephone rates, but not credit card offers, insurance plans or lawn mowing services. The consumer may also enroll in a state or national do-not-call list as an initial reaction to a particularly unpleasant call by one company.

11. Experience in the states also demonstrates that company-specific "do-not-call" requests can be honored in a more timely fashion than requests to be placed on state "do-not-call" lists. It can be months from when the consumer signs-up for the state do-not-call list to the time of required compliance by companies governed by such lists. Company-specific requests can be honored far more quickly. Do-not-call requests made to directly to MCI are implemented in at most two weeks, and often within twenty-four hours.

12. Company-specific lists makes sense because they allow consumers to tailor

the calls that they are willing to receive, while not to preventing calls that may be of interest to them. While not all consumers like receiving telemarketing calls at what may be inconvenient times, generally consumers find it an easy way to take advantage of new cost-saving offers of which they might not have otherwise been aware.

CONCLUSION

13. This concludes my declaration on behalf of WorldCom, Inc.

I declare that the forgoing is true and correct to the best of my information and belief.

Executed on December 6, 2002.

/s/ Andrew M. Graves

Exhibit B, WorldCom Comments

T. Randolph Beard, PH.D., "Telemarketing and Competition: An Economic Analysis of "Do Not Call" Regulations" (March 2002)

(See Attachment)

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Rules and Regulations Implementing the	)	CG Docket No. 02-278
Telephone Consumer Protection Act	)	CC Docket No 92-90
of IOUI	)	

DECLARATION OF RANDY HICKS
ON BEHALF OF WORLDCOM, INC.

Based on my personal knowledge and on informarion learned in the course of my business duties. I. Randy Hick. declare as follows:

I. My name is Randy Hicks. I ani employed by Worldcom. Inc. ("WorldCom") as the Director of Automation and Network Operations in the Operations group of WorldCom. In that position. I am responsible for providing Customer Self Service capabilities. Voice and Data network design/support and Call Center Telephony switching systems. 1 have participated in the development. resting and use of predictive dialers for telemarketing telephone services.

2. The purpose of my affidavit is to describe the operation and benefits of the predictive dialing equipment used by WorldCom.

3. Predictive dialer is a software driven system that integrates with telephony switches and is designed to initiate the dialing of predetermined telephone numbers. The main purpose of a using a predictive dialing process is ro enable an entity making numerous calls in an attempt to reach "live" persons to make the most efficient use of its

resources. specifically the personnel handling the calls The other important function served by this system is that it can control the numbers that dre called. An entity will only load the equipment with numbers it wants to call. thereby ensuring only those numbers are dialed by the system. MCI. for example. will only load numbers that have been run through a process that excludes numbers that MCI should not he calling. such its numbers listed on MCI's company-specific do-not-call list

4. The [predictive dialing system has a substantial positive impact on the preservation of callers' time and productivity because only one out of every seven to nine dialed calls results in a connection with a person. The other calls are not answered or reach busy signals. recorded messages. voice mail. answering machines. *or* other non-"live" responses. Answering machines. in particular. account for most of these nonproductive calls. being responsible lor 35% to 40% of such calls. By avoiding *the* 86% to 89% of all outbound dialing that does not reach a person. an entity cnn be seven to nine times more successful at reaching prospects than it would be without the use of predictive dialers. Consequently. predictive dialers are a valuable cost-effective tool for pollster,. political campaigners. telemarketers. and charitable organizations. MCI uses predictive dialers in all of its telemarketing call centers. which are located in various states. Calls to consumers nationwide may be made from any of the call centers in these states. depending upon workload and availability

5. The predictive dialing process employs two machines. a predictive dialer engine and an automatic call distributor (ACD) The [predictive engine provides technology lor self-adjusting. adaptive algorithms that minimize agent wait times and

prospect abandonment rates. It is programmed to send telephone numbers contained in a database to the ACD at a certain rate. The ACD dials the telephone numbers and uses answer detection software that is designed to determine call disposition The answer detection software is designed by the manufacturer to detect sound energy within the range of human voice frequency anti duration. If the call is determined to be "live." tlic ACD instantly rends the call to a sales representative. If no representative is available the ACD places tlie called party's circuit in queue to be served by tlic next available sales representative.

6. The answering machine detection (AMD) component of the answering detection software relies on the observations of two timers. The first one ("voice timer") begins at the time of voice energy detection: the second one ("pause timer") begins with a pause in speech that generally follows a greeting. The AMD timers determine the maximum time for answer detection of a circuit on which voice energy has been detected It may be set based upon the client's experience with how long it takes a person to state his/her greeting. For example. excessively long greetings are probably message machine greetings. Once the voice rimer's time limit has been exceeded. tlie ACD will disconnect the circuit. The voice timer will run for the programmed length of time unless one of two things happen,. One would be tlie detection of a pause of the required duration by the pause timer. When this occurs. it is presumed to be a "live" person's voice and the circuit is routed to an agent or queue if no agents are available Tlie other circumstance could be a hang up by the called recipient.

7. Tlie system has the potential of reaching more "live'. called parties than

the number of available agents to service the calls. The ACD will hold the call in queue for a predetermined length of time (a few seconds), and if there are no representative available within that period, the ACD will terminate the call and the called party will be disconnected. This is what is termed an abandoned call. The abandonment rate is determined by the number of abandoned calls versus the total number of "live" person's voices reached

8. MCI, and any responsible user of the predictive dialing system, ensures the lowest number of abandoned calls feasible, while still obtaining the benefits of the system. MCI follows the Direct Marketing Association's guidelines that the rate be as close to 0% as possible, not to exceed 5%. MCI performed numerous studies in a controlled environment to deiermine the feasibility, and impact on productivity, of reducing its current abandonment rates of 3%-5% to a 1% abandonment rate. The testing indicated that in order to reduce ihe abandonment rate to this level, the predictive dialing system had io be aborted. This meant moving to an auto dial mode, which reduced productivity by approximately 50%. Moreover, the tests determined thai the 1% goal was not obtainable even in the auto dial mode. MCI has derermincd that its 3% to 5% is the lowest feasible rate possible in order to obtain the productivity benefits of predictive dialers.

I declare that the foregoing is true and correct to the best of my information and belief. This concludes my declaration.

Executed on December 6, 2002.

/s/ Randy Hicks

Telemarketing and Competition:
*An Economic Analysis of "**Do** Not Call" Regulations*

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March 2002

Telemarketing and competition:

Air Economic Analysis of "Do Not Call" Regulations

Executive Summary

The U.S. Federal Trade commission is currently evaluating introduction of a national "Do Not Call" mechanism to limit telemarketing communications. Similar proposals have already been implemented by seventeen U.S. states, although participation rates vary widely. Tic conventional economic argument used in favor of limiting telephone sale.; calls is based on the belief that a meaningful "externality" is created by such calls. By limiting calls, it is thought that these external costs could be reduced.

This report examines a potential effect of "Do Not Call" regulation. For some industries, telemarketing is a primary means of price competition. In telecommunications, ior example, the bulk of all customers who switch carriers do so in response *to* telephone solicitations. Thus, any policy that limits such calls will have the unintended conseqtiencr ot raising the costs incurred by firms in making attractive offers to rival firms' customers. This cost increase, in turn, reduces the incentives firms have to "guard" their initial customers hi

moderating prices. Several simple economic models are developed which illustrate this basic phenomenon. It is shown that policies which increase the effective costs ot recruiting other firms' customers caii reasonably be expected to result in general increases in prices and a reduction in the vigor of price competition.

Thus, it is urged thal any implementation of a "Do Not Call" regulation be predicated on a careful evaluation of possible price conseqtiences of such a policy. Even if a reduction in sales calls reduces consumer irritation, and this effect can be valued, the resulting benefits must then be weighed against the negative consequences of potential price rises.

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Telemarketing and Competition: An Economic Analysis of "Do Not Call" Regulations

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Abstract. This report examines a potential effect of "Do Not Call" regulations, which are aimed at attenuating the use of telemarketing as a mode of customer acquisition. For some industries, telemarketing is a

primary means of price competition. In telecommunications, for example, the bulk of customer migration is in response to telephone solicitations. Thus, any policy that limits telemarketing will have the unintended consequence of raising the costs to firms of attracting rival firms' customers. This cost increase, in turn, reduces incentives to "guard" their existing customers by moderating prices. In this paper, several simple economic models are developed which illustrate this basic phenomenon. It is shown that policies that increase the effective costs of recruiting customers from rival firms can be expected to result in general increases in prices and a reduction in the vigor of price competition.

I. Introduction

The use of telemarketing in the U.S. has increased substantially in recent years. Belch and Belch (2000, p. 485) report that telemarketing produced sales of almost 5230 billion to consumers in 1999, and over 5 million workers had jobs tied to telemarketing. Although much telemarketing involves business-to-business ("B2B") sales, the growth in direct calling of consumers has largely paralleled the general growth in all forms of direct marketing.

As telemarketing has expanded, so have initiatives to regulate or restrict its use. While abuses by disreputable firms operating illegally havr triggered several regulatory initiatives (such as the FTC's Telemarketing Sales Ru[illegible] of 1995), momentum now exists to institute restrictions on the [illegible] legitimate firms. In particular, the FTC is currently considering implemen[illegible] of a national "No Call" mechanism, an initiative that cou[illegible] it some state-level programs designed along similar lines.[1] Under such a scheme, consumers could "opt out" of the pool of potential telemarketing acquisitions by registering in a national database, thereby limiting the number of (unsolicited) sales calls

[1] FTC File No. R411001

they receive.

The political impetus for such regulations is readily apparel?: many consumers do not wish to receive sales calls, particularly at inconvenient moments. However, there is also an *economic* aspect to the debate. Although economists have long recognized the potentially pro-competitive function of advertising, it is widely believed that unsolicited sales calls impose costs on consumers in an "involuntary" way. This logic identifies unwanted calls as the source of a *negative externality*, an economic concepl that describes costs imposed on one party by the actions of dnother when those costs are not mediated through the price system.[2] Often called "spillovers", externalities create inefficiencies and welfare losses in markets, and serve as a rationalization for certain types of government intervention. As applied to telemarketing, the externality argument suggests that certain limitations on calls car be appropriate. and that, in the absence of such regulation, too many such calls would be made.

Yet, telemarketing is not only an externality: it is also a widespread form of advertising. Economics also has long recognized that advertising plays a significant role in the competitive process, and that restriclions on advertising actually caii hdve bad consequences for society in some cases. Commenting on the famous study of advertising bans in optometry by Benham (1972), Ekelund and Tollison (1997, p. 269) note that, "The prevention of advertising appears to have made prices higher than they would have been had advertising been allowed in the market." Of course, a ban on telemarketing is *not* a blanket prohibition on advertising. Thus, any useful evaluation of the actual social consequences of telemarketing restrictions should compare the *benefits* arising from reducing the "unwanted call externality", with the potential *costs* arising from reduced competition (i.e., higher prices).

See Salanie (2000), Ch 6, for a detailed discussion

This report provides a framework for evaluating the probable impacts on consumers of an effective "do not call" regulation. While it appears that there is insufficient data to reach a conclusion on this issue at this time, any such analysis must include a careful evaluation of the factors described and analyzed in this report. A number of potentially important preliminary findings can be obtained from a straightforward theoretical exercise. The two most important are:

1. An increase in the costs of contacting a rival's customers will lead to an increase in prices generally;

2. It is possible that the harm to consumers from the price increases will outweigh any benefits they might obtain from reduced telemarketing. Further, it is not true that an increase in the cost of telemarketing will reduce total advertising.

These findings do not depend on any particularly complex or convoluted theoretical model. Rather, they arise naturally from a relatively simple set of propositions. Thus in the absence of further empirical evidence, great caution should attend any government sponsored intervention in this area.

This report is divided into five sections plus a technical appendix. Section II provides background information and a brief literature survey. Section III presents a simple model of direct advertising, and illustrates the basic mechanism by which institution of limits on telemarketing can raise prices and harm consumers. Section IV considers some extensions of this analysis, while Section V offers a short summary and conclusion A technical appendix provides mathematical details.

II. Background